

FISCAL NOTE
LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)				
	FY 2013-14		FY 2014-15	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	16,874,835		17,235,000	
CASH FUNDS	24,825			
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	16,899,660		17,235,000	

Any Fiscal Notes received from state agencies and political subdivisions are attached following the Legislative Fiscal Analyst Estimate.

LB553 amends the School Employee Retirement Plan as follows.

1. Changes the amortization method of the unfunded liability from level dollar to level percent of pay.
2. Creates a new tier of reduced benefits for employees who begin work for the first time on or after July 1, 2013.
 - a. Final average salary is averaged over 5 years versus the current 3 years.
 - b. The cost-of-living-adjustment (COLA) is 1% versus the current 2.5%.
3. The employee contribution rate is not specified.
4. Increases the State contribution rate from 1% of compensation to 2% with no sunset
5. The sunset is stricken for the school budget exclusion of expenditures above the 2008 school district contribution rate.

An actuarial analysis is required to determine the fiscal impact of the plan design changes

Cost estimates are as follows.

1. The Nebraska Public Employees Retirement System (NPERS) estimates the cost of the actuarial analysis to be \$5,000 (Cash Fund).
2. NPERS estimates the IT programming cost for plan design changes to be \$19,825 (Cash Fund).
3. The cost of increasing the State contribution rate from 1% to 2% is estimated to be \$16,874,535 for FY14 and \$17,235,000 for FY15 (General Fund).
4. The stricken sunset for the school budget exclusion could have an impact on TEEOSA School Aid in FY2017-18.

ADMINISTRATIVE SERVICES-STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSES			
LB: 553	AM:	AGENCY/POLT. SUB: NPERS	
REVIEWED BY: Gary Bush	DATE: February 1, 2013	PHONE: 471-4161	
<p>COMMENTS: Agree with agency that an actuarial study would need to be completed and the cost estimate is reasonable.</p> <p>The agency has two Office of the Chief Information Officer programmers on staff to maintain and update the record keeping software used for defined benefits plans. Therefore, some of the additional costs listed for programming might be offset by these permanent staff.</p> <p>Agree with the agency's estimate of additional contribution provided by a 100%, from 1% to 2%, increase to the state percent of salary for FY2014. Salaries are not expected to remain flat but are assumed by the Public Employee Retirement Board to increase by 4% per year. The general fund impact is projected to be \$17,235,000 in 2015, \$17,924,400 in FY2016, and \$18,641,376 in FY2017.</p> <p>The proposed two percent of salary contributed by the state is permanent in LB553. Therefore, the General Fund appropriation necessary to meet the state percent of salary contribution is projected to continue to grow. In years when the actuarial valuation indicates that additional contributions are required, the state percent of salary contribution would reduce the actuarial required contribution of the plan. In years when the actuarial valuation indicates that employer and employee contribution plus interest income is sufficient to meet or exceed the actuarial requirement, the state percent of salary contribution would fund the plan at a higher level than required.</p> <p>See table below for projected impact through FY2038.</p>			

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ADMINISTRATIVE SERVICES-STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSES

LB: 553 AM: AGENCY/POLT. SUB: NPERS
 REVIEWED BY: Gary Bush DATE: February 1, 2013 PHONE: 471-4161

State Percent of Salary Contribution per 79-966(2)

Fiscal Year	Current Law (a)	LB553 (b)	Increased state general fund appropriations
2014 - 2015	34,109,535	68,219,070	34,109,535
2016 - 2017	36,565,776	73,131,552	36,565,776
2018 - 2038	433,851,534	1,239,575,812	805,724,278
Total	\$504,526,845	\$1,380,926,434	\$876,399,589

Salaries are projected to increase by 4% each year per Public Employee Retirement Board assumption adopted September 2012.

(a) Current law sets the state percent of salary at 1% until June 30, 2017. On July 1, 2017, the state percent of salary is reduced to seven tenths of one-percent (0.7%).

(b) LB553 changes the state percent of salary from 1% to 2% on July 1, 2013.

Note: Year by Year detail available upon request from the State Budget Division

The agency incorrectly shows \$16,874,535 as an increase to cash fund revenue. This amount is actually an increase of General Fund appropriations of \$16,874,535 to the Nebraska Public Employee Retirement System in program 515. The agency will use this appropriation to place money in the School Employee Retirement System Fund, which is a trust fund, not a cash fund.

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2013

LB⁽¹⁾ 553 FISCAL NOTE

State Agency OR Political Subdivision Name: ⁽²⁾ NPERS

Prepared by: ⁽³⁾ Randy Gerke Date Prepared: ⁽⁴⁾ 1/31/2013 Phone: ⁽⁵⁾ 402 471-9495

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	<u>FY 2013-14</u>		<u>FY 2014-15</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	_____	_____	_____	_____
CASH FUNDS	<u>24,825</u>	<u>16,874,535</u>	_____	<u>16,874,535</u>
FEDERAL FUNDS	_____	_____	_____	_____
OTHER FUNDS	_____	_____	_____	_____
TOTAL FUNDS	<u>24,825</u>	<u>16,874,535</u>	<u>_____</u>	<u>16,874,535</u>

Return by date specified or 72 hours prior to public hearing, whichever is earlier.

Explanation of Estimate:

LB553 amends the School Retirement Plan by changing the amortization of the unfunded liability from a level dollar to a level percentage of pay. The bill also adds a new tier of benefits for newly hired members. This will require an actuarial study to determine the fiscal impact of this legislation. The actuary estimates the cost for this study to be \$5,000.

NPERS also estimates that it would take 260 hours of IT programming (defining, coding and testing) to make these changes. We have used the OCIO rate of \$76.25. The total amount for programming would be \$19,825.00. These both would be one time costs.

LB553 also provides for the state to deposit into the School Retirement Fund, 2% of the compensation of the member school employees. Based on the current 1% of compensation effective this year this would be an additional \$16,874,535 of state contributions into the plan. This would come from the state general fund into NPERS cash fund.

MAJOR OBJECTS OF EXPENDITURE

Personal Services:

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2013-14 EXPENDITURES</u>	<u>2014-15 EXPENDITURES</u>
	<u>13-14</u>	<u>14-15</u>		
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
Benefits.....	_____	_____	_____	_____
Operating.....	_____	_____	<u>24,825</u>	_____
Travel.....	_____	_____	_____	_____
Capital outlay.....	_____	_____	_____	_____
Aid.....	_____	_____	_____	_____
Capital improvements.....	_____	_____	_____	_____
TOTAL.....	_____	_____	<u>24,825</u>	_____